

B-114831  
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# REPORT TO THE CONGRESS

Audit Of  
Federal Deposit Insurance  
Corporation For The Year Ended  
June 30, 1969-- Limited By  
Agency Restriction On Access To  
Bank Examination Records

B-114831

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

745-5391 / MARCH 19, 1970  
**092356**



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114831

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1969, pursuant to section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827).

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of the Treasury; and the Chairman of the Board of Directors, Federal Deposit Insurance Corporation.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

## C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	4
Examinations of insured banks	5
Internal audit	6
2 CONTINUED RESTRICTION ON ACCESS TO REPORTS AND RECORDS ON BANK EXAMINATIONS	8
3 PROBLEM BANKS AND BANK FAILURES	10
Problem banks	10
Bank failures	13
4 CONTINGENT LIABILITIES	16
5 STATUS OF PRIOR YEARS' RECOMMENDATIONS	17
6 SCOPE OF AUDIT	19
7 OPINION OF FINANCIAL STATEMENTS	20
FINANCIAL STATEMENTS	
1 Comparative statement of financial condition as of June 30, 1969, and June 30, 1968	23
2 Comparative statement of income and deposit insurance fund, fiscal years ended June 30, 1969, and June 30, 1968	24
3 Sources and application of funds, year ended June 30, 1969	25
4 Analysis of deposit insurance fund, from inception to June 30, 1969	26
Notes to financial statements	27

APPENDIX

Page

I	Summary of the number of problem banks June 30, 1965, through June 30, 1969	31
II	Letter dated January 27, 1970, from the Federal Deposit Insurance, Corporation to the General Accounting Office	32

D I G E S T

WHY THE AUDIT WAS MADE

The General Accounting Office (GAO) is required by law (12 U.S.C. 1827) to make an annual audit of the Federal Deposit Insurance Corporation.

FINDINGS AND CONCLUSIONS

As in prior years, GAO was unable to fully discharge its audit responsibilities because the Corporation would not permit unrestricted access to examination reports, files, and other records relative to the banks it insures.

The respective positions of GAO and the Corporation on this matter are set forth in detail in GAO's report to the Congress on audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1964 (B-114831, February 28, 1966).

GAO believes that access to the records of the Corporation's Division of Bank Supervision is essential. The reports of the Division on the banks insured by the Corporation contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. Without full and complete access to these reports and supporting records, important information affecting the Corporation's financial operations and conditions cannot be evaluated by GAO. (See pp. 8 and 9.)

The financial statements in this report were prepared by the Corporation. These financial statements do not disclose the contingent indemnity liability which the Corporation may incur as a result of problem conditions existing in insured banks. Because GAO did not have unrestricted access to examination reports and related records, it could not (1) ascertain whether bank examinations made were of sufficient scope and could be relied upon to identify serious problems at all insured banks and (2) evaluate the significance of any adverse effect of identified problem banks on the financial position of the Corporation.

For these reasons GAO cannot express an overall opinion on the accompanying financial statements for fiscal year 1969. However, except for

the comments as to the contingent indemnity liability relating to problem conditions in insured banks, GAO believes that the individual amounts shown in the financial statements are fairly stated at June 30, 1969, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. (See p. 20.)

#### RECOMMENDATIONS OR SUGGESTIONS

See comments under the following two headings.

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

Both the Corporation and GAO believe that the law supports their respective positions on the access-to-records problem. Repeated efforts to resolve the matter administratively have failed.

The Chairman of the Board of Directors of the Corporation advised GAO by letter dated January 27, 1970, that the Corporation continued to believe that legislative clarification may be required if the issues on GAO's access to the Corporation's records are to be resolved. (See p. 9.)

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

On January 3, 1969, a bill (H.R. 40) was introduced in the House of Representatives by the Chairman of the House Committee on Banking and Currency, to amend the Federal Deposit Insurance Act. The bill provides that GAO have access to all records used by the Corporation, including examination reports of the Federal Reserve banks and of the Comptroller of the Currency. GAO believes that the enactment of the bill would resolve the access-to-records problem, and GAO supports the bill's enactment. (See pp. 8 and 9.)

In prior audit reports to the Congress on audit of the Federal Deposit Insurance Corporation, GAO recommended that the Federal Deposit Insurance Act be amended (1) to require the Corporation to reimburse the Government for its costs of providing retirement, disability, and compensation benefits to the Corporation's employees and (2) to change the requirement for an annual audit of the Corporation by GAO from a fiscal-year basis to a calendar-year basis.

Proposed draft legislation supported by the Corporation, incorporating these recommendations, was considered by the Banking and Currency Committee of the House of Representatives, Eighty-eighth Congress, second session; however, it did not come before the Congress for action prior to the adjournment of that session.

During the first session of the Ninetieth Congress, legislation was introduced in the House of Representatives to amend the Federal Deposit Insurance Act to require the Corporation to reimburse the Government for its cost of providing retirement, disability, and compensation benefits to the Corporation's employees. The proposed legislation was not acted upon prior to the adjournment of the Ninetieth Congress. (See pp. 17 and 18.)

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has made an audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1969. The scope of the audit is set forth on page 19 of this report.

The Federal Deposit Insurance Corporation is an independent Government agency which insures deposits in banks qualified for deposit insurance, in the maximum amount of \$15,000 for each depositor.<sup>1</sup> National banks that are chartered by the Comptroller of the Currency and all State banks that are members of the Federal Reserve System are required to be insured. State banks that are not members of the Federal Reserve System may become insured upon application for insurance and approval thereof.

The Corporation acts, when appointed to do so, as receiver for insured banks that have been closed. As of June 30, 1969, the Corporation had 22 active receivership cases.

The Corporation's operations are financed from assessments against insured banks and from income from its investments in U.S. Government securities. The Corporation is authorized to borrow up to \$3 billion from the U.S. Treasury when, in the judgment of the Board of Directors, such funds are required for insurance purposes. This borrowing authority has never been used. The deposit insurance fund, representing the accumulated net income of the Corporation, amounted to approximately \$3.9 billion at June 30, 1969. The amount of the fund was equivalent to 1.3 percent of the insured deposits of \$292.1 billion in the 13,806 banks insured by the Corporation at June 30, 1969, as follows:

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<sup>1</sup>Public Law 91-151, approved December 23, 1969, increased the maximum amount of insurance to \$20,000 for each depositor.

<u>Class of bank</u>	<u>Number of banks</u>	<u>Amount of insured deposits (billions)</u>
State nonmember banks	7,869	\$114.6
State member banks	1,236	42.1
National banks	<u>4,701</u>	<u>135.4</u>
Total	<u>13,806</u>	<u>\$292.1</u>

Management of the Corporation is vested in the Board of Directors which is composed of the Comptroller of the Currency and two members appointed by the President of the United States.

During fiscal year 1969, the membership of the Board of Directors was as follows:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
K. A. Randall, Chairman (effective April 1965)	Mar. 1964	Present
William B. Camp, Comptroller of the Currency	Nov. 1966	Present
Irvine H. Sprague	Sept. 1968	Present
Vacancy	Apr. 1967	Sept. 1968

#### EXAMINATIONS OF INSURED BANKS

The Corporation makes regular examinations of insured State banks that are not members of the Federal Reserve System. According to the Corporation, these banks are examined to ascertain their financial condition, compliance with applicable laws and regulations, and operating policies and practices. The banks are examined also to determine the condition of their loan portfolios, consideration being given to such factors as the possibility of undue risk and overextension of credit or undue concentration in a single line of credit, the suitability of their security portfolios from the standpoint of both liquidity and quality, the adequacy of their capital and reserves, and the

effectiveness of their internal controls. In addition, overall appraisals of the banks' management are made.

State banks that are members of the Federal Reserve System are examined by examiners from the Federal Reserve banks. National banks are examined by examiners from the Comptroller of the Currency. We are not informed as to the scope of the examinations made by the examiners from the Federal Reserve banks and from the Comptroller of the Currency. Section 7(a)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1817) provides that the Corporation have access to reports on examinations made by, and reports on condition made to, any Federal Reserve bank and the Comptroller of the Currency.

The Corporation reported that, for the period July 1, 1968, through July 3, 1969, it had examined 7,490 insured State nonmember banks and had reviewed reports on examinations made by Federal Reserve banks of 747 insured State member banks and by the Comptroller of the Currency on 710 national banks.

#### INTERNAL AUDIT

The internal audit activity of the Corporation has been almost exclusively confined to audits of financial transactions and related internal controls. In our report to the Congress on the audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1968 (B-114831, May 27, 1969), we stated that the Corporation was considering plans to increase its internal audit staff and the scope of internal audit work to provide for operational audits of all field and headquarters offices of the Corporation.

We further stated that, if the Corporation expanded the scope of its internal audit into operations and if the audits were properly carried out, this could provide the Corporation's management with independent, objective, and constructive appraisals of the effectiveness and efficiency of the manner in which the Corporation's financial and operational responsibilities were being performed.

Regarding the Corporation's plans for expanding the scope of its internal audit function, the Chairman of the Board of Directors of the Corporation advised us by letter dated January 27, 1970 (see app. II), that:

"\*\*\* the Corporation has felt it inappropriate to proceed for reasons which it feels are relevant. Nevertheless, the possibility remains under active consideration and it is quite possible we shall proceed in that connection when the circumstances warrant. \*\*\*"

Because of the inherent advantages of operational audits, we continue to believe that an expansion of the scope of the internal audit into operations would be beneficial to the Corporation.

## CHAPTER 2

### CONTINUED RESTRICTION ON ACCESS TO REPORTS

#### AND RECORDS ON BANK EXAMINATIONS

In our reports to the Congress on the audit of the Federal Deposit Insurance Corporation for each of the 5 previous fiscal years, we reported that we were unable to fully discharge our audit responsibilities under the Federal Deposit Insurance Act because officials of the Corporation had not given us unrestricted access to examination reports, files, and other records maintained by the Corporation relative to the banks which it insured, with the exception of those for closed banks.<sup>1</sup> This restriction was also imposed upon us during our audit for fiscal year 1969. The Chairman of the Board of Directors, Federal Deposit Insurance Corporation, advised us by letter dated January 27, 1970, that the Corporation continued to believe that some kind of legislative clarification may be required if the issues on our access to the Corporation's records are to be resolved.

The respective positions of GAO and the Corporation on this matter are set forth in detail in our report to the Congress on audit of the Federal Deposit Insurance Corporation for the fiscal year ended June 30, 1964 (B-114831, February 28, 1966).

We believe that access to the records of the Corporation's Division of Bank Supervision is essential to a meaningful audit of the Corporation by GAO. That Division employs approximately 75 percent of the Corporation's total personnel, and the efforts and reports of the Division constitute an essential and intergral part of the operations of the Corporation. The reports of the Division of Bank

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<sup>1</sup>The Corporation did not give us unrestricted access to records of the Public Bank, Detroit, Michigan, closed on October 12, 1966, because legal action had been taken by former bank directors to reopen the bank.

Supervision on the banks insured by the Corporation contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. Unless we have full and complete access to these reports and any supporting records, we cannot evaluate important information affecting the Corporation's financial operations and condition.

Because of restrictions on access to the reports, we were unable to ascertain (1) whether the bank examinations were of sufficient scope and could be relied upon to identify serious problems at all insured banks, (2) whether the Corporation had taken effective follow-up action on findings disclosed by the bank examiners, and (3) the significance of any potential adverse effect of identified problem banks on the financial position of the Corporation.

Both the Corporation and GAO believe that the present law supports their respective positions. Repeated efforts to resolve this matter administratively have been unsuccessful, and, for this reason, we recommended in a statement and testified on March 6, 1968, before the Committee on Banking and Currency, House of Representatives, that the Federal Deposit Insurance Act be amended to specifically provide for unrestricted access to the examination reports and related records pertaining to insured banks.

On January 3, 1969, the Chairman of the Committee on Banking and Currency introduced a bill (H.R. 40) in the House of Representatives, Ninety-first Congress, to amend the Federal Deposit Insurance Act. The bill provided that GAO have access to all records used by the Corporation, including examination reports of the Federal Reserve banks and of the Comptroller of the Currency. GAO supports the enactment of this bill and believes that it would resolve the access-to-records problem.

## CHAPTER 3

### PROBLEM BANKS AND BANK FAILURES

#### PROBLEM BANKS

From June 30, 1965, through June 30, 1968, the number of banks classified by the Corporation as problem banks increased each year, but in fiscal year 1969 the number decreased. (See app. I.)

The Corporation classifies problem banks in two categories: (1) serious problem banks and (2) other problem banks.

The Corporation defines a serious problem bank as "\*\*\* one that threatens ultimately to involve the Corporation in a financial outlay unless drastic changes can be brought about."

The Corporation defines other problem banks as "\*\*\* banks of lesser degree of vulnerability, but includes those which give cause for more than ordinary concern and require aggressive supervisory attention."

The Corporation may consider a bank to be a problem for one or more of the following reasons.

1. The bank is being operated with inadequate capital protection.
2. Unwarranted loans have been made in which bank officers, directors, and owners have personal financial interest.
3. An excessive amount of substandard loans has been made.
4. Management of the bank has been generally unsatisfactory.
5. Control of the bank has been assumed by new management of questionable integrity and experience.

6. Funds have been misused by bank officers, directors, or owners.
7. Funds are being solicited through brokers which require premium payments in addition to the allowable interest rates. Such payments, in turn, require investment in high-risk loans, often outside the bank's normal lending area.
8. Banking laws or regulations have been violated by bank management.
9. Recommendations made by supervisory authority, either Federal or State, have been disregarded.

Combinations of these reasons are considered by the Corporation to be the major causes for the failures of insured banks.

The following table shows the number of banks, by category, which the Corporation has listed as serious problem banks and other problem banks at June 30, 1969, and June 30, 1968.

	June 30, <u>1969</u>	June 30, <u>1968</u>
Number of serious problem banks:		
State nonmember banks	18	18
" member banks	3	4
National banks	<u>10</u>	<u>10</u>
Total serious problem banks	<u>31</u>	<u>32</u>
Number of other problem banks:		
State nonmember banks	144	154
" member banks	9	14
National banks	<u>28</u>	<u>43</u>
Total other problem banks	<u>181</u>	<u>211</u>
Total	<u>212</u>	<u>243</u>

The Corporation's estimates of insured deposits of the serious problem and other problem banks at June 30, 1969, and June 30, 1968, are shown below.

	June 30, <u>1969</u>	June 30, <u>1968</u>
Serious problem banks	\$ 434,670,000	\$ 345,716,100
Other problem banks	<u>1,674,606,000</u>	<u>1,937,068,000</u>
Total	<u>\$2,109,276,000</u>	<u>\$2,282,784,100</u>

To correct problem conditions at an insured bank, the Corporation, with the assistance of the appropriate banking regulatory body, attempts to obtain the cooperation of the bank's management in improving the bank's operations and financial condition. When corrective action is not obtainable by this method, section 202 of the Financial Institutions Supervisory Act of 1966 (12 U.S.C. 1818) authorizes the Corporation to take corrective measures, such as the issuance of cease-and-desist orders to insured banks engaged in unsafe and unsound practices and the suspension or removal of bank officers and directors, subject to certain protective standards and procedures.

These protective procedures consist of advance notification to the appropriate governmental supervisory authority to afford an opportunity to effect corrective action and of hearings in connection with the issuance of cease-and-desist orders and the suspension or removal of officers and directors. Any orders issued as a result of such hearings are subject to review by a United States court of appeals.

The above supervisory provisions of the act will remain in effect until June 30, 1972.

When unsafe and unsound practices persist, the Corporation is authorized under section 8(a) of the Federal Deposit Insurance Act to commence proceedings which may result in the termination of the deposit insurance coverage of the bank. The bank shall be given a statement with respect to such practices, and a time limitation of 120 days or less may be specified for the corrective action, due

notification being given also to the appropriate banking regulatory body. In the event the bank fails to take corrective action, the Corporation is required to give the bank not less than 30 days' notice of the Corporation's intention to terminate the bank's deposit insurance. The Corporation is required also to give the bank an opportunity to present its case at an administrative hearing before insurance may be terminated.

The Corporation's financial statements as of June 30, 1969, do not disclose the contingent indemnity liability that the Corporation may incur as a result of the problem conditions existing in insured banks.

#### BANK FAILURES

In our reports to the Congress on the four previous audits of the Corporation, we commented on the number of insured banks which had failed. During the period July 1, 1964, to June 30, 1969, 29 insured banks failed, as shown in the following tabulation.

<u>Fiscal year</u>	<u>Number of insured banks that failed</u>
1965	10
1966	5
1967	5
1968	3
1969	<u>6</u>
Total	<u>29</u>

The Corporation estimated that, as of June 30, 1969, its total insurance indemnity payments resulting from the 23 failures during fiscal years 1965 through 1968 would amount to about \$61,159,000, of which about \$17,602,000 would be unrecoverable. The Corporation estimated that, for the six banks which failed during fiscal year 1969, the total payments required to discharge its insurance indemnity liability would be about \$11,580,000 and that its estimated losses thereon would be about \$2,701,000, as shown below.

<u>Bank</u>	<u>Date closed</u>	Amount of insurance indemnity liability paid or payable ( <u>note a</u> )	<u>Estimated loss to Corporation</u>
Bank of Commerce, Tonkawa, Oklahoma	9-25-68 <sup>b</sup>	\$ 1,028,000	\$ 125,000
The Rocky Mountain State Bank, Lakewood, Colorado	1-30-69 <sup>c</sup>	3,036,000	250,000
Citizens State Bank, Alvarado, Texas	4-12-69	1,880,000	623,000
The Morrice State Bank, Morrice, Michigan	5- 3-69 <sup>d</sup>	1,405,000	300,000
The First State Bank, Dodson, Texas	5-12-69	1,056,000	345,000
The State National Bank of Lovelady, Lovelady, Texas	5-28-69	<u>3,175,000</u>	<u>1,058,000</u>
		<u>\$11,580,000</u>	<u>\$2,701,000</u>

<sup>a</sup> Does not include liquidation expenses incurred or collections received.

<sup>b</sup> Merged with the newly organized The Service Bank of Tonkawa, Tonkawa, Oklahoma.

<sup>c</sup> Merged with the newly organized Lakewood Colorado National Bank, Lakewood, Colorado.

<sup>d</sup> Merged with the Owosso Savings Bank, Owosso, Michigan.

Of the six banks which failed, three were State non-member banks, two were State member banks, and one was a national bank.

Subsequent to the close of fiscal year 1969, there were four additional bank failures. Two of these banks, the First National Bank of Ursa, Ursa, Illinois, with deposit liabilities of \$1.8 million, and The Big Lake State Bank, Big Lake, Texas, with deposit liabilities of \$4.4 million, failed in August 1969. In the former case, the Corporation began the payment of the insured claims of the depositors. The deposit liabilities of the latter bank were assumed by a new bank with the assistance of the Corporation. The First State Bank, Aransas Pass, Texas, having deposit liabilities of \$10.5 million, failed in September 1969, and its deposit liabilities were assumed by a new

bank with the assistance of the Corporation. The First National Bank of Coalville, Coalville, Utah, having deposit liabilities of \$6 million, failed in October 1969, and its deposit liabilities were assumed by another bank with the assistance of the Corporation.

The Corporation's records showed that the bank failures after July 1, 1964, resulted from various combinations of unsound and deceptive practices in operations, including misuse of bank funds by bank officers, directors, and owners; substandard loans and excessive appraisals of collateral; unwarranted loans in which bank officials, directors, and owners had personal financial interests; loans in excess of the limit prescribed by law; broker-solicited funds in certificates of deposit and related unwarranted out-of-territory lending; inadequate capital; unsatisfactory management; and defalcations.

The Corporation, in discharging its insurance indemnity liability for the six banks which failed during fiscal year 1969, paid the depositors of three of the banks the amount of their insured deposits in exchange for the depositors' claims upon the banks' assets and took action to facilitate the merger of the other three banks with other insured banks.

The Corporation purchased the assets of the failed banks that were not taken over by the assuming banks and the amount paid became part of the assets acquired by the assuming banks. The assets acquired by the Corporation are to be liquidated and the proceeds applied in payment to the Corporation for (1) its investment in the acquired assets, (2) its expenses incurred in maintaining and liquidating the acquired assets, and (3) interest on the unliquidated investment in the acquired assets and the accumulated expenses at the rate of 4 percent a year. Any remaining proceeds and other assets are to be returned to the failed banks.

## CHAPTER 4

### CONTINGENT LIABILITIES

The Corporation's General Counsel advised us that there were nine legal actions pending against the Corporation at June 30, 1969, and estimated that the Corporation might have a total liability of about \$22,500 in connection with these actions.

One case involves claims for damages totaling \$178 million by a director and certain stockholders of the closed Public Bank, Detroit, Michigan, naming the Corporation as a codefendant in both its corporate capacity and in its capacity as receiver. The case was dismissed by a U.S. district court in November 1967 and was appealed by the plaintiffs. The Corporation's General Counsel informed us that he believed that the case was without merit.

Another case involves an action by eight directors of the closed Public Bank, Detroit, Michigan, seeking to set aside the closing of the bank and the transfer of its assets to the Bank of the Commonwealth, Detroit, Michigan. The primary relief sought was the return of the Public Bank to its former status as an operating bank and the transfer of the Corporation's \$10 million guaranty fund from the Bank of the Commonwealth to the Public Bank. The action also involves a claim for damages of an amount not disclosed in the complaint. The Corporation's General Counsel considers that the likelihood of any judgment for damages against the Corporation is highly unlikely. The General Counsel advised us that, in another case, the same type of issues had been decided in favor of the Corporation in September 1967 by the circuit court for Wayne County, Michigan.

## CHAPTER 5

### STATUS OF

#### PRIOR YEARS' RECOMMENDATIONS

In our prior audit reports we recommended:

1. That the Federal Deposit Insurance Act be amended to require the Corporation to:
  - a. Pay into the civil service retirement and disability fund the Government's share of the cost of providing retirement and disability benefits for the Corporation's employees for the period from the creation of the Corporation through the year ended June 30, 1957.
  - b. Pay into the employees' compensation fund the amount of benefit payments made from such fund on account of the Corporation's employees for all periods subsequent to the creation of the Corporation.
  - c. Pay into the Treasury as miscellaneous receipts a fair portion of the cost of administering the the civil service retirement system and the employees' compensation fund for all periods subsequent to the creation of the Corporation.
2. That section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827(c)) be amended to require that GAO make its reports of audits on a calendar-year basis rather than on a fiscal-year basis.

We believe that the adoption of the above recommendations would result in a more equitable allocation of the cost of retirement, disability, and compensation benefits between the Federal Government and the Corporation and would eliminate the inconsistency between the periods covered by our annual audit reports and by the annual reports of the Corporation.

Proposed draft legislation supported by the Corporation, incorporating these recommendations was considered by the Banking and Currency Committee of the House of Representatives, Eighty-eighth Congress, second session; however, it did not come before the Congress for action prior to the adjournment of that session.

During the first session of the Ninetieth Congress, legislation was introduced in the House of Representatives to amend the Federal Deposit Insurance Act to require the Corporation to reimburse the Government for its cost of providing retirement, disability, and compensation benefits to the Corporation's employees. The proposed legislation was not acted upon prior to the adjournment of the Ninetieth Congress.

## CHAPTER 6

### SCOPE OF AUDIT

Our audit of the Corporation consisted principally of an examination of its statement of financial condition as of June 30, 1969, the related statements of income and deposit insurance fund and of sources and application of funds for the year then ended, and the analysis of the deposit insurance fund from its inception. We were unable to make an evaluation of the Corporation's contingent indemnity liability for problem banks because of the restrictions imposed by Corporation officials on our access to examination reports and related data. (See p. 8.) We believe that unrestricted access to such reports and records is indispensable for a proper examination of the Corporation's financial statements.

Our examination was made in accordance with generally accepted auditing standards and, with the foregoing exception concerning review of bank examination reports and related documentation and data, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control and the work performed by the Corporation's internal auditors.

## CHAPTER 7

### OPINION OF FINANCIAL STATEMENTS

The financial statements in this report were prepared by the Corporation. These financial statements do not disclose the contingent indemnity liability which the Corporation may incur as a result of the problem conditions existing in insured banks. (See pp. 10 through 13.) Because we did not have unrestricted access to examination reports and related records on insured banks (see p. 8), we could not (1) ascertain whether bank examinations made were of sufficient scope and could be relied upon to identify serious problems at all insured banks and (2) evaluate the significance of any adverse effect of identified problem banks on the financial position of the Corporation.

For the reasons stated in the preceding paragraph, we cannot express an overall opinion on the accompanying financial statements for the fiscal year 1969. However, in our opinion, except for the foregoing comments as to the contingent indemnity liability relating to problem conditions in insured banks, the individual amounts shown in the financial statements are fairly stated as of June 30, 1969, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**FINANCIAL STATEMENTS**



# SCHEDULE 1

## FEDERAL DEPOSIT INSURANCE CORPORATION

### COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1969, AND JUNE 30, 1968

ASSETS	June 30, 1969	June 30, 1968
CASH	\$ 6,546,959	\$ 6,683,306
U.S. GOVERNMENT OBLIGATIONS:		
Securities at amortized cost	\$4,132,850,953 <sup>a</sup>	\$3,826,968,710 <sup>b</sup>
Accrued interest receivable	<u>48,493,511</u>	<u>42,236,703</u>
	4,181,344,464	3,869,205,413
ASSETS ACQUIRED IN RECEIVERSHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:		
Special assistance to insured banks	10,000,000	10,000,000
Subrogated claims of depositors against closed insured banks	22,287,830	23,534,829
Net insured balances of depositors in closed insured banks, to be subrogated when paid--see related liability	533,245	575,703
Equity in assets acquired under agreements with insured banks	11,806,671	7,227,212
Assets purchased outright	<u>14,595</u>	<u>14,681</u>
	44,642,341	41,352,425
Less reserve for losses	<u>25,409,790</u>	<u>26,957,000</u>
	19,232,551	14,395,425
MISCELLANEOUS ASSETS	318,266	779,802
LAND AND OFFICE BUILDING, less depreciation on building	7,567,301	7,702,505
FURNITURE, FIXTURES AND EQUIPMENT	<u>1</u>	<u>1</u>
Total assets	<u>\$4,215,009,542</u>	<u>\$3,898,766,452</u>
LIABILITIES AND DEPOSIT INSURANCE FUND (note 1)		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 1,687,272	\$ 1,633,191
EARNEST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	634,699	276,998
ACCRUED ANNUAL LEAVE OF EMPLOYEES	1,936,524	1,808,379
DUE INSURED BANKS:		
Net assessment income credits (note 2):		
Available July 1, 1969, and July 1, 1968, respectively	202,136,109	182,354,266
Available July 1, 1970, and July 1, 1969, respectively (estimated)	110,813,242	99,034,206
Other	<u>69,578</u>	<u>20,939</u>
	313,018,929	281,409,411
NET INSURED BALANCES OF DEPOSITORS IN CLOSED INSURED BANKS--See related asset	<u>533,245</u>	<u>575,703</u>
Total liabilities	317,810,669	285,703,682
DEPOSIT INSURANCE FUND, net income accumulated since inception (schedule 2 and note 3)	<u>3,897,198,873</u>	<u>3,613,062,770</u>
Total liabilities and deposit insurance fund	<u>\$4,215,009,542</u>	<u>\$3,898,766,452</u>

<sup>a</sup>At June 30, 1969--face value \$4,153,287,000, cost \$4,121,393,360, market value \$3,702,778,497.

<sup>b</sup>At June 30, 1968--face value \$3,840,632,000, cost \$3,816,791,757, market value \$3,556,878,962.

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 20.

SCHEDULE 2

FEDERAL DEPOSIT INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND DEPOSIT INSURANCE FUND

FISCAL YEARS ENDED JUNE 30, 1969, AND JUNE 30, 1968

	<u>Fiscal year 1969</u>	<u>Fiscal year 1968</u>
<b>INCOME:</b>		
Deposit insurance assessments (note 2):		
Assessments earned during the year	\$350,280,555	\$319,921,540
Less net assessment income credits to insured banks--estimated	<u>213,907,290</u>	<u>190,428,259</u>
	\$ 136,373,265	\$ 129,493,281
Adjustments of assessments earned in prior years	<u>46,519</u>	<u>48,640</u>
	136,419,784	129,541,921
Net income from U.S. Government securities	177,130,462	150,384,145
Other income	<u>1,786</u>	<u>12,447</u>
Total income	<u>313,552,032</u>	<u>279,938,513</u>
<b>EXPENSES AND LOSSES:</b>		
Administrative and operating expenses:		
Salaries and wages	19,765,021	16,740,737
Civil Service retirement fund and FICA payments	1,260,928	1,061,334
Travel expenses	5,102,321	4,343,267
Office rentals, communications and other expenses	<u>4,356,618</u>	<u>4,757,663</u>
	30,484,888	26,903,001
Provisions for insurance losses:		
Applicable to banks assisted in the current fiscal year	2,701,000	2,550,000
Adjustments applicable to banks assisted in prior years	<u>-4,248,209</u>	<u>4,397,749</u>
	-1,547,209	6,947,749
Nonrecoverable insurance expenses incurred to protect depositors--net	<u>478,250</u>	<u>415,349</u>
Total expenses and losses	<u>29,415,929</u>	<u>34,266,099</u>
NET INCOME--ADDITION TO THE DEPOSIT INSURANCE FUND FOR THE YEAR	284,136,103	245,672,414
DEPOSIT INSURANCE FUND, at the beginning of the year	<u>3,613,062,770</u>	<u>3,367,390,356</u>
DEPOSIT INSURANCE FUND, at the end of the year, net income accumulated since inception (schedule 4 and note 3)	<u>\$3,897,198,873</u>	<u>\$3,613,062,770</u>

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 20.

## FEDERAL DEPOSIT INSURANCE CORPORATION

## SOURCES AND APPLICATION OF FUNDS

YEAR ENDED JUNE 30, 1969

## FUNDS PROVIDED BY:

Net deposit insurance assessments	\$ 136,419,784
Income from U.S. Government securities, less amortized net discounts	175,124,519
Maturities and sales of U.S. Govern- ment securities	1,335,323,388
Collections on assets acquired in re- ceivership and deposit assumption transactions	20,766,182
Increase in assessment credits due in- sured banks	<u>31,609,518</u>
Total funds provided	<u>\$1,699,243,391</u>

## FUNDS APPLIED TO:

Administrative, operating and insur- ance expenses, less miscellaneous credits	\$ 30,827,934
Acquisition of assets in receivership and deposit assumption transactions	24,098,557
Purchase of U.S. Government securities	1,639,199,688
Net changes in other assets and lia- bilities	<u>5,117,212</u>
Total funds applied	<u>\$1,699,243,391</u>

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 20.

SCHEDULE 4

FEDERAL DEPOSIT INSURANCE CORPORATION

ANALYSIS OF DEPOSIT INSURANCE FUND

FROM INCEPTION TO JUNE 30, 1969

INCOME:

Insurance assessments	\$4,898,167,125
Less net assessment income credits	<u>2,282,726,330</u>
Net insurance assessments	2,615,440,795
Income from U.S. Government securities	1,730,447,471
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>9,353,945</u>
Total income	<u>4,355,242,211</u>

EXPENSES AND LOSSES:

Administrative and operating expenses	322,440,717
Deposit insurance losses and expenses	55,040,309
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562,312</u>
Total expenses and losses	<u>458,043,338</u>

DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED SINCE INCEPTION (note 3) \$3,897,198,873

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 20.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1969

1. Capital stock was retired by payments to the United States Treasury in 1947 and 1948.
2. Represents the portion of the Corporation's net assessment income for the preceding calendar year and an estimated portion of such income for the first half of the current calendar year which, pursuant to the Federal Deposit Insurance Act (12 U.S.C. 1817), shall be credited against assessments becoming due from insured banks, after the end of the current fiscal year and after the end of the following fiscal year, respectively.
3. The deposit insurance fund represents the accumulated net income of the Corporation and is available for insuring deposits and payment of expenses. The borrowing authority of \$3 billion from the United States Treasury has never been used.
4. These statements do not include accountability for the assets and liabilities of the closed insured banks for which the Corporation acts as receiver or liquidating agent.



**APPENDIXES**



## FEDERAL DEPOSIT INSURANCE CORPORATION

## SUMMARY OF THE NUMBER OF PROBLEM BANKS

JUNE 30, 1965, THROUGH JUNE 30, 1969

	June 30				
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<b>SERIOUS PROBLEM BANKS:</b>					
State nonmember banks	25	23	15	18	18
State member banks	2	1	2	4	3
National banks	<u>10</u>	<u>9</u>	<u>13</u>	<u>10</u>	<u>10</u>
Total serious problem banks	<u>37</u>	<u>33</u>	<u>30</u>	<u>32</u>	<u>31</u>
<b>OTHER PROBLEM BANKS:</b>					
State nonmember banks	126	145	138	154	144
State member banks	27	28	21	14	9
National banks	<u>9</u>	<u>14</u>	<u>41</u>	<u>43</u>	<u>28</u>
Total other problem banks	<u>162</u>	<u>187</u>	<u>200</u>	<u>211</u>	<u>181</u>
Total problem banks	<u>199</u>	<u>220</u>	<u>230</u>	<u>243</u>	<u>212</u>

Notes: At June 30, 1969, a total of 13,806 banks were insured by the Federal Deposit Insurance Corporation.

The information in this schedule was prepared by the Corporation and has not been verified by the General Accounting Office.

APPENDIX II

Page 1



FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D. C. 20429

OFFICE OF THE CHAIRMAN

January 27, 1970

Honorable Max A. Neuwirth  
Associate Director  
United States General Accounting  
Office  
Civil Division  
Washington, D. C. 20548

Dear Mr. Neuwirth:

This is in response to your communication of December 19, 1969, with which you enclosed copies of a draft of your proposed report to the Congress on the audit of this Corporation for Fiscal Year 1969.

We note again your views and qualifications with respect to access to our confidential reports and records on bank examinations. We have expressed our position rather fully in the past and we continue to believe some kind of legislative clarification may be required if the issues are to be resolved.

With respect to your comments about the possible expansion of our internal audit function to provide for more comprehensive operational audit, on Page 3 of your draft, the Corporation has felt it inappropriate to proceed for reasons which it feels are relevant. Nevertheless, the possibility remains under active consideration and it is quite possible we shall proceed in that connection when the circumstances warrant. In the language we suggested on this point last year, we implied that this project might not be undertaken immediately.

Last year, we made the point that we had some question as to whether anything is gained by including in your proposed "Statement of Financial Condition" notes which refer to the market value of the Corporation's portfolio of Government securities. We repeat our view that market values have little relevance in the Corporation's management of its portfolio inasmuch as the great bulk of our securities is held as a deposit insurance fund. On that basis, market value at any given point in time has very little meaning in stating the Corporation's financial condition.

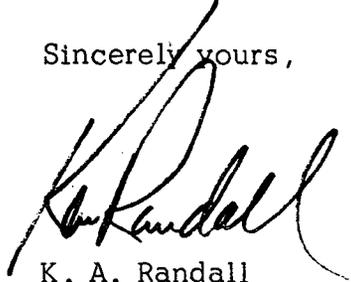
Hon. Max. A. Neuwirth  
General Accounting Office

-2-

January 27, 1970

Beyond these points, we have no suggestions and appreciate the opportunity you have provided for the expression of our views.

Sincerely yours,

A handwritten signature in black ink, appearing to read "K. A. Randall". The signature is written in a cursive style with a large, sweeping initial "K".

K. A. Randall  
Chairman